



Audit Report



OIG-10-010

Management Letter for Fiscal Year 2009 Audit of the
Community Development Financial Institutions Fund's Financial
Statements

November 16, 2009

Office of
Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

November 16, 2009

**MEMORANDUM FOR DONNA J. GAMBRELL, DIRECTOR
COMMUNITY DEVELOPMENT FINANCIAL
INSTITUTIONS FUND**

FROM: Michael Fitzgerald
Director, Financial Audits

SUBJECT: Management Letter for Fiscal Year 2009 Audit of the
Community Development Financial Institutions Fund's
Financial Statements

I am pleased to transmit the attached management letter in connection with the audit of the Community Development Financial Institutions Fund's (CDFI) Fiscal Year 2009 financial statements. Under a contract monitored by the Office of Inspector General, KPMG LLP (KPMG), an independent certified public accounting firm, performed an audit of CDFI's financial statements as of September 30, 2009 and for the year then ended. The contract required that the audit be performed in accordance with generally accepted government auditing standards; applicable provisions of Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended; and the *GAO/PCIE Financial Audit Manual*.

As part of its audit, KPMG issued and is responsible for the accompanying management letter that discusses a matter involving internal control over financial reporting that was identified during the audit, but was not required to be included in the auditors' reports.

In connection with the contract, we reviewed KPMG's letter and related documentation and inquired of its representatives. Our review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted government auditing standards.

Should you have any questions, please contact me at (202) 927-5789, or a member of your staff may contact Catherine Yi, Manager, Financial Audits, at (202) 927-5591.

Attachment



KPMG LLP
2001 M Street, NW
Washington, DC 20036

November 10, 2009

Inspector General
U.S. Department of the Treasury
740 15th Street NW
Washington, DC 20220

Director
Community Development Financial Institutions Fund
601 13th Street NW
Washington, DC 20005

Ladies and Gentlemen:

We have audited the statements of financial position of the U.S. Department of the Treasury's Community Development Financial Institutions Fund (the Fund) as of September 30, 2009 and 2008, and the related statements of operations and changes in net position, and cash flows (hereinafter referred to as "Financial Statements") for the year ended September 30, 2009, and have issued our report thereon dated November 10, 2009. We were not engaged to audit the statements of operations and changes in net position, and cash flows for the year ended September 30, 2008, and, therefore, we did not express an opinion on those financial statements. In planning and performing our audits of the Financial Statements of the Fund, in accordance with auditing standards generally accepted in the United States of America, we considered the Fund's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Financial Statements but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control. We have not considered internal control since the date of our report.

During our audits we noted a matter involving internal control that is presented for your consideration. The comment and recommendations, which have been discussed with the appropriate members of the Fund's management, are intended to improve internal control or result in other operating efficiencies and are summarized in the attached Appendix A.

Management's response to the comment and recommendations is presented in Appendix B. We did not audit the Fund's response and, accordingly, we express no opinion on it.

In addition, we identified certain deficiencies in internal control that we consider to be significant deficiencies, and communicated them in writing to management and those charged with governance in our *Independent Auditors' Report on Internal Control Over Financial Reporting* dated November 10, 2009.

Our audit procedures are designed primarily to enable us to form an opinion on the Financial Statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the Fund's organization gained during our work to make comments and suggestions that we hope will be useful to you.



We would be pleased to discuss this comment and the recommendations with you at any time.

This communication is intended solely for the information and use of the Fund's management, the Department of the Treasury's Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

Community Development Financial Institution Fund

Management Letter Comment

Lack of formal control to reconcile disbursements to the general ledger

During our testing of the Community Development Financial Institutions Fund's (the Fund) expenses, we noted that the Fund did not have formal policies and procedures in place to reconcile grant disbursements reported in the CDFI Disbursement System to the general ledger. As a result, the Fund may not be able to detect and correct misstatements in a timely manner, which would result in inaccurate financial reporting.

The Government Accountability Office's *Standards of Internal Control* states, "Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties."

The Standards also states, "Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained."

OMB Circular A-123 Management's Responsibility for Internal Control states that "the agency head must establish controls that reasonably ensure that obligations and costs are in compliance with applicable law, funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation, and revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports . . ."

Recommendations:

We recommend that management:

1. Develop and implement formal policies and procedures to reconcile authorized grant disbursements in the CDFI Disbursement System to the general ledger on a regular periodic basis.
2. Document the reconciliation and subject it to a secondary review.

Community Development Financial Institution Fund

Management's Response

Lack of formal control to reconcile disbursements to the general ledger

Management's Response:

The CDFI Fund concurs with the finding and recommendations and will implement a monthly reconciliation process. In addition, upon the auditors' request, the Fund prepared and provided to the auditors a year-to-date reconciliation of all grant disbursements as of August 31, 2009.

The CDFI Fund will write formal reconciliation procedures. The procedures will be as follows: The CDFI Fund will generate a report from the disbursement system at the end of each month and will deliver it to the Office of Financial Management (OFM). OFM will generate a report from the ORACLE – Discoverer reporting tool which will display the balances recorded in the general ledger. OFM will then reconcile the report generated by CDFI Fund's disbursement system and the balances in the general ledger. After the reconciliation is done, OFM will forward the reconciliation report to the CDFI Fund for a secondary level review.

This first monthly reconciliation report will be processed for the month of November 2009.